



UST PROGRAM LOSS PORTFOLIO TRANSFER

Small Loss Portfolio Transfer. At the August 29, 2016, meeting of the Underground Storage Tank (UST) Fund Board, the Board approved the Loss Portfolio Transfer (LPT) of nine contaminated UST sites where the Petroleum Marketers Management Insurance Company (PMMIC) and the Board each have open claims (shared liability). The original LPT approval was revised and reapproved at the September 29, 2016, Board meeting. The LPT involves the Board transferring its claim liabilities to PMMIC in exchange for an agreed-upon amount of money from the Board.

Shared Liability. The state has incurred liability for the cleanup expenditures at contaminated underground petroleum storage tank sites through the authority provided in Iowa Code chapter [455G](#). That chapter provides that a state fund will reimburse responsible parties for cleanup expenditures at qualified contaminated UST sites if specific conditions are met. For most of the eligible sites, the contamination must have been reported to the state before October 26, 1990. Even though the environmental cleanup has not been completed, many of the contaminated sites continue to operate, and if operating, federal law requires the sites to have environmental contamination liability insurance in place. The PMMIC insures many active sites in Iowa, and a number of those sites have reported new contamination events while PMMIC policies were in effect. Through terms of the insurance policies and due to new contamination, PMMIC incurs cleanup expense liability for sites that also have state liability in place for past environmental contamination.

For these sites where both the state UST Program and PMMIC have existing expense liability, PMMIC and the UST Program Administrator (AON, Inc.) have negotiated a percentage split for the ongoing cleanup expenses. The split is determined on a case-by-case basis.

UST Program Site Reserves and Reserve Balance. For all contaminated sites where the UST Program has liability, the UST Program Administrator maintains a financial “reserve” meant to represent the best estimate of the UST Program total state cost expected at that site. The reserve amount does not include any administrative expenses that are not specific to that site. A “reserve balance” calculation subtracts the amount expended on the site to date, so the reserve balance refers to the expected state expenditure remaining for that site from the current point in time through the end of the state’s liability for the site. On sites with joint liability, the reserve balance is calculated on the UST Program’s share of total remaining expected cleanup costs.

Remaining Reserves for the Nine LPT Sites. For the nine sites involved in this LPT, the remaining reserves totaled \$527,000 at the time of the decision to approve the LPT with PMMIC. For each of the nine sites, the environmental cleanup company performing remediation at the site was asked to provide a best estimate of the remaining cleanup expense necessary to complete the work. For the nine sites, the cleanup company estimates increased the UST Program share of future cleanup by \$122,000, to \$649,000.

Financial Implications of the Small LPT. The UST Board LPT approval, as amended at the September meeting, included two adjustments totaling 20.0%, and each of the adjustments raised the amount ultimately transferred from the state to PMMIC.

- 15.0% risk premium – An adjustment meant to protect PMMIC against any unknown additional expenditures associated with the nine sites.
- 5.0% administration – A payment for additional administrative costs PMMIC incurs over and above the administrative expenses they would incur if the sites continued as joint liability sites.

The percentages above are applied to the cleanup company estimates that total \$649,000 and add an additional \$130,000 to the amount paid from the UST Fund to PMMIC as compensation for the liability transfer.

UST Board Small Portfolio Transfer - September 2016	
	Amount
UST Fund Reserve Balance	\$ 527,364
Added By Groundwater Professional Estimates	121,968
Risk Premium	97,400
Administrative Charge	32,467
Payment to PMMIC	\$ 779,199
Transfer \$ Above Existing UST Reserve Balance	\$ 251,835
Transfer % Above Existing UST Reserve Balance	47.8%

UST Board Large LPT. The UST Board is in the process of creating a Request for Proposals (RFP) with the intent to develop a larger LPT for additional sites. If completed, the large LPT would be used to transfer the state cleanup liability for approximately 280 of the remaining 390 open UST Program claims. The UST Administrator reports that the reserve balance for these 280 sites that are subject to a potential large LPT totals \$17.4 million.

If that large LPT is transferred to an outside entity with state financial implications similar to this small LPT, a 47.8% premium applied to the current reserve balance for the 280 sites would increase the state expenditure for those sites by \$8.3 million over and above the \$17.4 million the UST Program currently carries as the state's financial liability for environmental cleanup at the 280 sites. Funds available to finance petroleum contamination, including payments for any LPT transactions, come from the state UST Program Fund.

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